

Message Text

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ACTION EB-08

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SUBJECT: ARMAND HAMMER'S VISIT TO PERU

REF: (A) 77 LIMA 8574, (B) LIMA 1934

1. SUMMARY: OCCIDENTAL PETROLEUM CORPORATION (OXY) PRESIDENT ARMAND HAMMER VISITED PERU MARCH 16-18 AND ANNOUNCED THAT HIS COMPANY PLANS TO INCREASE INVESTMENT IN PETROLEUM ACTIVITIES IN PERU FROM CURRENT DOLS 212 MILLION TO DOLS 500 MILLION. DURING COURSE OF MEETINGS WITH GOP OFFICIALS AND PRESS, HAMMER ALSO PREDICTED THAT WITH HELP FROM PRODUCTION RESULTING FROM NEW INVESTMENT PERUVIAN PETROLEUM EXPORTS WOULD REACH 100,000 BARRELS PER DAY (B/D) BY END OF 1978. LOCAL OXY OFFICIALS CAUTION THAT FINAL DETAILS HAVE YET TO BE WORKED OUT WITH GOP AND AS A RESULT CANNOT SAY WHEN NEW INVESTMENT WILL ACTUALLY BEGIN. END SUMMARY.

2. AMIDST CONSIDERABLE PUBLICITY IN THE GOP-CONTROLLED PRESS, OCCIDENTAL PETROLEUM CORPORATION PRESIDENT ARMAND HAMMER VISITED PERU MARCH 16-18. DURING HIS VISIT DR. HAMMER SIGNED A JOINT DECLARATION WITH THE EXECUTIVE
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PRESIDENT OF PETROPERU REGARDING BLOCK 1-B IN THE NORTHERN PERUVIAN JUNGLE. IN ADDITION, DR. HAMMER USED THE VISIT TO MEET WITH PERUVIAN PRESIDENT MORALES BERMUDEZ, ENERGY AND MINES MINISTER SANCHEZ, ECONOMY AND FINANCE MINISTER SAENZ, AND NAVY MINISTER PARODI. AS REPORTED IN THE LOCAL PRESS, AT EACH MEETING DR. HAMMER EXPRESSED HIS CONFIDENCE IN PERU'S ABILITY TO OVERCOME ITS PRESENT

ECONOMIC PROBLEMS AND INDICATED OCCIDENTAL'S INTENTION TO ASSIST PERU IN ITS DEVELOPMENT EFFORTS.

3. THE JOINT DECLARATION SIGNED BY DR. HAMMER AND PETROPERU EXECUTIVE PRESIDENT GENERAL (R) VICTOR LOPEZ STATES THAT OXY AND PETROPERU HAVE REACHED AGREEMENT FOR PETROLEUM OPERATIONS IN BLOCK 1-B. TERMS OF THIS AGREEMENT WILL BE INCORPORATED IN A DRAFT CONTRACT TO BE APPROVED BY THE COUNCIL OF MINISTERS AT A FUTURE (UNSPECIFIED) DATE. AS REPORTED REF A, BLOCK 1-B, FORMERLY ASSIGNED TO UNION/TENNECO, IS ADJACENT TO OXY'S CURRENT BLOCK 1-A ALONG PERU'S BORDER WITH ECUADOR. BEFORE CEASING OPERATIONS IN PERU, UNION HAD FOUND OIL IN BLOCK 1-B BUT IT WAS OF SUCH HEAVY GRAVITY (10 API) THAT IT WAS NOT PROFITABLE TO PUMP. OXY PLANS TO MIX THIS OIL WITH PETROLEUM FROM ITS BLOCK 1-A (20 TO 40 API) TO BE ABLE TO EXPLOIT BLOCK 1-B. IN ADDITION OXY WILL CARRY OUT FURTHER EXPLORATION IN 1-B. FULL TEXT OF THE DECLARATION IS BEING POUCHED ARA/AND - MR. KEMP.

4. IN STATEMENTS TO THE PRESS, DR. HAMMER SAID THAT ONCE THE CONTRACTS FOR BLOCK 1-B AND FOR SECONDARY RECOVERY OPERATIONS IN THE OLD NORTH COAST FIELDS ARE SIGNED, OCCIDENTAL PLANS TO INCREASE ITS INVESTMENT IN PERU FROM ITS CURRENT DOLS 212 MILLION TO APPROXIMATELY DOLS 500 MILLION. THE PRESS ALSO REPORTED THAT DR. HAMMER EXPECTS PERU TO BE LIMITED OFFICIAL USE

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EXPORTING ABOUT 100,000 BARRELS OF CRUDE PER DAY BY THE END OF THIS YEAR, WHICH ACCORDING TO HAMMER WOULD MEAN APPROXIMATELY DOLS 1.3 MILLION DOLLARS DAILY IN FOREIGN EXCHANGE INCOME FOR PERU. IN RESPONSE TO A REPORTER'S QUESTION WHETHER OXY WOULD BE INTERESTED IN INVESTING IN OTHER SECTORS IN PERU IN ADDITION TO PETROLEUM, DR. HAMMER SAID THAT OXY WAS WILLING TO CONSIDER EVERY FIELD FOR INVESTMENT OPPORTUNITIES.

5. COMMENT: A. ACCORDING TO A HIGH LEVEL LOCAL OXY SOURCE, DR. HAMMER'S VISIT ACHIEVED ITS PRINCIPAL GOAL OF GETTING THE GOP TO MOVE ONCE AGAIN ON THE CONTRACT NEGOTIATIONS ON BLOCK 1-B, WHICH APPEARED TO BE DRAGGING RECENTLY. THE NEWSPAPERS STATED THAT HAMMER WILL RETURN ON APRIL 3, BUT NEITHER THEY NOR LOCAL OXY OFFICIALS WILL STATE CATEGORICALLY THAT THE PARTIES WILL SIGN THE 1-B CONTRACT THEN. HOWEVER, HAMMER TOLD THE AMBASSADOR HE HAD A COMMITMENT FROM THE PRESIDENT THAT THE CONTRACTS WILL BE READY THEN.

B. DR. HAMMER'S VISIT ALSO SERVED THE MUTUALLY BENEFICIAL PURPOSE OF PROVIDING A PUBLIC EXPRESSION OF OCCIDENTAL'S

(OR PERHAPS HAMMER'S) OPTIMISM IN PERU'S FUTURE AND ESPECIALLY IN THE COUNTRY'S ABILITY TO OVERCOME ITS PRESENT ECONOMIC CRISIS. THE GOP CAPITALIZED ON HAMMER'S STATEMENTS TO SHOW THAT A MAJOR FOREIGN INVESTOR HAS CONFIDENCE IN PERU. WE EXPECT OXY WILL BENEFIT FROM THE FAVORABLE PRESS TREATMENT IT RECEIVED DURING ITS PRESIDENT'S VISIT WITH ACCELERATED PROGRESS IN THE Q-B AND SECONDARY RECOVERY NEGOTIATIONS.

C. WE BELIEVE DR. HAMMER'S INVESTMENT PROJECTIONS MAY BE SOMEWHAT EXAGGERATED. PRIOR TO HIS VISIT A HIGH LEVEL LOCAL OXY SOURCE INDICATED THAT INVESTMENT IN BLOCK 1-B WOULD BE ON THE ORDER OF DOLS 50 TO 100 MILLION. SUBSEQUENT TO HAMMER'S VISIT, THIS SOURCE CONFIRMED THE LIMITED OFFICIAL USE

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TOTAL DOLS 500 MILLION INVESTMENT MENTIONED BY HAMMER, BUT SAID THAT THIS WOULD BE THE TOTAL IF OXY GOT EVERYTHING IT WANTED OUT OF BOTH THE 1-B AND SECONDARY RECOVERY CONTRACTS. AT THIS TIME, WE EXPECT OXY WILL EVENTUALLY GET WHAT IT WANTS, BUT LOCAL LXY OFFICIALS TEND TO BE MOR CONSERVATIVE IN THEIR PRIVATE PROJECTIONS THAN THEIR BOSS IS IN PUBLIC. THEY CAUTION THAT SINCE FINAL DETAILS REGARDING THE 1-B CONTRACT AND THE SECONDARY RECOVERY PROPOSAL HAVE YET TO BE WORKED OUT, THEY CAN NOT PREDICT WHEN THE NEW INVESTMENT WILL ACTUALLY BEGIN NOR PRECISELY HOW LARGE IT WILL BE.

D. ON THE OTHER HAND, DR. HAMMER'S PROJECTION OF PERU'S PETROLEUM EXPORTS REACHING 100,000 B/D BY THE END OF THE YEAR IS CONCEIVABLE. OXY'S PRODUCTION IN BLOCK 1-A ALONE MAY REACH 100,000 B/D AND IF THE COMPANY CAN BEGIN OPERATIONS IN BLOCK 1-B THIS FIGURE IS LIKELY TO BE SURPASSED. COMBINED WITH PRODUCTION FROM PETROPERU'S AND BELCO PETROLEUM CORPORATION'S OPERATIONS, WHICH TOGETHER ACCOUNT FOR ABOUT 100,000 B/D AT THIS TIME, IT IS POSSIBLE THAT TOTAL PRODUCTION BY YEAR END COULD REACH OVER 220,000 B/D. WITH DOMESTIC DEMAND ABOUT 120,000 B/D, THERE WOULD BE AN EXCESS OF 100,000 B/D AVAILABLE FOR EXPORT. PART OF THESE OIL EXPORTS, HOWEVER, ARE COMMITTED AS PAYMENT FOR THE PIPELINE.

DECON 3/21/79.
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